

CM  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

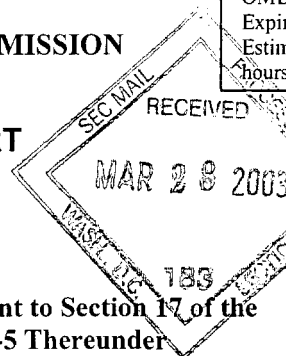
ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

4/1  
OMB APPROVAL  
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8-52193



REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Gray Capital Partners, LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

100 Crescent Court, Suite 700

(No. and Street)

Dallas

Texas

75201

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Cheshier & Fuller, L.L.P.

(Name - if individual, state last, first, middle name)

14175 Proton Rd.

Dallas

TX

75244

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

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THOMSON FINANCIAL

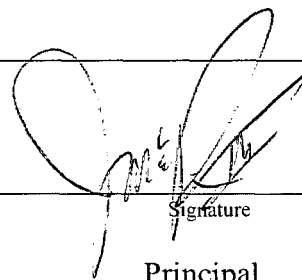
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

61-100

## OATH OR AFFIRMATION

I, Jesse C. McRae, III, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Gray Capital Partners, LLC, as of December 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
\_\_\_\_\_  
Signature

Principal  
\_\_\_\_\_  
Title

  
\_\_\_\_\_  
Notary Public

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows
- ☒ (e) Statement of Changes in Stockholders' Equity or partners' or Sole Proprietor's Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent auditor's report on internal control

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

GRAY CAPITAL PARTNERS, LLC  
REPORT PURSUANT TO RULE 17a-5(d)  
YEAR ENDED  
DECEMBER 31, 2002

GRAY CAPITAL PARTNERS, LLC

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***Cheshier & Fuller, L.L.P.***  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

MEMBERS:  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
SEC PRACTICE SECTION OF AICPA  
TEXAS SOCIETY OF CERTIFIED  
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### INDEPENDENT AUDITOR'S REPORT

To the Managers and Members  
Gray Capital Partners, LLC

We have audited the accompanying statement of financial condition of Gray Capital Partners, LLC as of December 31, 2002, and the related statements of income, changes in members' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gray Capital Partners, LLC as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
CHESHER & FULLER, L.L.P.

Dallas, Texas  
February 27, 2003

GRAY CAPITAL PARTNERS, LLC  
Statement of Financial Condition  
December 31, 2002

**ASSETS**

Cash	\$ 45
Due from broker-dealers	<u>78,219</u>
	<u>\$ 78,264</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities	
Accounts payable and accrued liabilities	\$ 6,648
Members' equity	<u>71,616</u>
	<u>\$ 78,264</u>

GRAY CAPITAL PARTNERS, LLC  
Statement of Income  
For the Year Ended December 31, 2002

**Revenues**

Commission income	\$ 292,817
Other income	1,105
Interest income	<u>467</u>
	<u>294,389</u>

**Expenses**

Commission expense	58,657
Clearance fees	73,533
Communications expense	18
Promotional expense	8,196
Regulatory fees and expenses	4,610
Other expenses	<u>163,459</u>
	<u>308,473</u>

Net loss	<u>\$ (14,084)</u>
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The accompanying notes are an integral part of these financial statements.

GRAY CAPITAL PARTNERS, LLC  
Statement of Changes in Members' Equity  
For the Year Ended December 31, 2002

	<u>Members'</u> <u>Equity</u>
Balances at January 1, 2002	\$ 23,200
Contribution of capital	62,500
Net loss	<u>(14,084)</u>
Balances at December 31, 2002	<u>\$ 71,616</u>

The accompanying notes are an integral part of these financial statements.



GRAY CAPITAL PARTNERS, LLC  
Statement of Changes in Liabilities Subordinated  
to Claims of General Creditors  
For the Year Ended December 31, 2002

Balance, at January 1, 2002	\$ -0-
Increases	-0-
Decreases	<u>-0-</u>
Balance, at December 31, 2002	<u><u>\$ -0-</u></u>

GRAY CAPITAL PARTNERS, LLC

Statement of Cash Flows

For the Year ended

December 31, 2002

**Cash flows from operating activities**

Net loss \$ (14,084)

Adjustments to reconcile net loss to net cash

provided (used) by operating activities:

Changes in assets and liabilities:

Increase in due from broker-dealers (53,538)

Increase in accounts payable and accrued liabilities 5,147

Net cash provided (used) by operating activities (62,475)

**Cash flows from investing activities**

Net cash provided (used) by investing activities -0-

**Cash flows from financing activities**

Contribution of capital 62,500

Net cash provided (used) by financing activities 62,500

Net increase (decrease) in cash 25

Cash at beginning of period 20

Cash at end of period \$ 45

**Supplemental schedule of cash flow information**

Cash paid during the period for:

Interest \$ -0-

Income taxes \$ -0-

The accompanying notes are an integral part of these financial statements.

GRAY CAPITAL PARTNERS, LLC  
Notes to Financial Statements  
December 31, 2002

Note 1 - Summary of Significant Accounting Policies

Gray Capital Partners, LLC (the "Company") is a broker-dealer in securities registered with the Securities and Exchange Commission (SEC) and is also a member of the National Association of Securities Dealers (NASD). The Company operates under (SEC) Rule 15c3-3(k)(2)(ii), which provides that all funds and securities belonging to the Company's customers would be handled by a clearing broker-dealer.

The Company operates as a Texas Limited Liability Company (L.L.C.) and has a sole member, Gray Capital Corporation (the "Parent"). Its member has limited personal liability for the obligations or debts of the entity.

Security transactions (and related commission revenue and expense) are recorded on a settlement date basis, generally the third business day following the transactions. If materially different, commission income and related expense is adjusted to a trade date basis.

The majority of the Company's business is conducted with customers located on the East coast of the United States and in Texas.

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company's net income will be taxed at the member level rather than at the corporate level for federal income tax purposes.

Note 2 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis.

At December 31, 2002, the Company had net capital of approximately \$71,616 and net capital requirements of \$5,000. The Company's ratio of aggregate indebtedness to net capital was .09 to 1. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

GRAY CAPITAL PARTNERS, LLC

Notes to Financial Statements

December 31, 2002

Note 3 - Possession or Control Requirements

The Company does not have any possession or control of customer funds or securities. There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of (S.E.C.) Rule 15c3-3(k)(2)(ii).

Note 4 - Commitments and Contingencies

Included in the Company's clearing agreement with its clearing broker-dealer, is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company will indemnify the clearing broker-dealer to the extent of the net loss on the unsettled trade. At December 31, 2002, management of the Company had not been notified by the clearing broker-dealer, nor were they otherwise aware, of any potential losses relating to this indemnification.

Note 5 - Related Parties

Parent provides administrative service, equipment and office space to the Company. Expenses incurred for this service during 2002 were \$157,306 and are included in other expenses.

Supplementary Information  
Pursuant to Rule 17a-5 of the  
Securities Exchange Act of 1934  
As of December 31, 2002

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## Schedule I

GRAY CAPITAL PARTNERS, LLC  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of December 31, 2002

### COMPUTATION OF NET CAPITAL

Total members' equity qualified for net capital	\$ 71,616
Add:	
Other deductions or allowable credits	<u>-0-</u>
Total capital and allowable subordinated liabilities	71,616
Deductions and/or charges	<u>-0-</u>
Net capital before haircuts on securities positions	71,616
Haircuts on securities (computed, where applicable, pursuant to rule 15c3-1(f))	<u>-0-</u>
Net capital	<u>\$ 71,616</u>

### AGGREGATE INDEBTEDNESS

Items included in the statement of financial condition	
Total aggregate indebtedness	<u>\$ 6,648</u>

**Schedule I (continued)**

**GRAY CAPITAL PARTNERS, LLC**  
**Computation of Net Capital Under Rule 15c3-1**  
**of the Securities and Exchange Commission**  
**As of December 31, 2002**

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required (6 2/3% of total aggregate indebtedness)	<u>\$ 443</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 5,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 5,000</u>
Net capital in excess of required minimum	<u>\$ 66,616</u>
Excess net capital at 1000%	<u>\$ 70,951</u>
Ratio: Aggregate indebtedness to net capital	<u>.09 to 1</u>

**RECONCILIATION WITH COMPANY'S COMPUTATION**

The following serves to reconcile differences in the computation of net capital under Rule 15c3-1 from the Company's computation:

Net capital as reported in the Company's Part II (unaudited)	
Focus report	\$ 78,173
Increase (decrease) due to adjustments for:	
Accrued liabilities	<u>(6,557)</u>
Net capital per audited report	<u>\$ 71,616</u>

## **Schedule II**

### **GRAY CAPITAL PARTNERS, LLC**

#### **Computation for Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission**

**As of December 31, 2002**

### **EXEMPTIVE PROVISIONS**

The Company has claimed an exemption from Rule 15c3-3 under section (k)(2)(ii), in which all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

Company's clearing firms:   Capital Institutional Services, Inc.  
                                      BNY Clearing Services, LLC



Independent Auditor's Report

On Internal Control

Required By SEC Rule 17a-5

Year Ended  
December 31, 2002

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***Cheshier & Fuller, L.L.P.***  
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL REQUIRED BY SEC RULE 17a-5

Managers and Members  
Gray Capital Partners, LLC

In planning and performing our audit of the financial statements and supplemental schedules of Gray Capital Partners, LLC (the "Company"), for the year ended December 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives.


Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and use of the managers and members, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



CHESHER & FULLER, L.L.P.

Dallas, Texas  
February 27, 2003